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## ABSTRACT

This report of the Office of the State Auditor in North Carolina details audit findings regarding allegations of misuse of Smart Start funds by Save Our Brothers, Inc. and the Liberty Chapel United Church of Christ. Save Our Brothers, Inc., a nonprofit agency, received two contracts totaling \$46,327 from the Chatham County Partnership for Children (CCPC) to implement a Surrogate Father's Program. Liberty Chapel United Church of Christ in Moncure, North Carolina received Smart Start grants from CCPC totaling \$60,630 and a grant from the North Carolina Department of Health and Human Services for \$5,000 to develop an educational and child care center. The report concludes that all the funding to Save Our Brothers, Inc. was questionable given their limited accomplishments and the nature and number of findings produced as a result of the audit. The report maintains that no clear objectives have been accomplished with the funds, there have been conflicts of interest in hiring practices, there has been a lack of documentation for services, and there has been a major breach of internal controls and an abdication of responsible oversight by the board of directors and president. In regard to the Liberty Chapel United Church of Christ, the report questions all the funds allocated to Liberty since the child care center has not opened. The report also notes the encouraging tone and intent of the response by the chair of the CCPC and expresses the hope that closer monitoring of project performance will prevent similar situations from occurring. (KB)

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## SPECIAL REVIEW OF SMART START EXPENDITURES

BY

**SAVE OUR BROTHERS, INC.**  
**PITTSBORO, NORTH CAROLINA**

AND

**LIBERTY CHAPEL UNITED CHURCH OF CHRIST**  
**MONCURE, NORTH CAROLINA**

**JANUARY 1999**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

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**SPECIAL REVIEW**  
**OF**  
**SMART START EXPENDITURES**  
**BY**  
**SAVE OUR BROTHERS, INC.**  
**PITTSBORO, NORTH CAROLINA**  
**AND**  
**LIBERTY CHAPEL UNITED CHURCH OF CHRIST**  
**MONCURE, NORTH CAROLINA**

**JANUARY 1999**



RALPH CAMPBELL, JR.  
STATE AUDITOR

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LETTER OF TRANSMITTAL

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January 12, 1999


The Honorable James B. Hunt, Jr., Governor  
Mr. Ashley Thrift, Chairman  
North Carolina Partnership for Children  
Ms. Sharon Bynum, Chairman  
Chatham County Partnership for Children  
Dr. John Holmes, III, Chairman  
Save Our Brothers, Inc.  
Ms. Margie Ellison, President  
Smart Start Advisory Board, Liberty Chapel  
United Church of Christ  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the expenditures of Smart Start funds by Save Our Brothers, Inc. and Liberty Chapel United Church of Christ. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General and other appropriate officials.

Respectfully submitted,

  
Ralph Campbell, Jr., CFE  
State Auditor



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## OVERVIEW

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### **Save Our Brothers, Inc.**

Save Our Brothers, Inc. (Agency) was established as a non-profit corporation in Chatham County, North Carolina during 1992. The organization's initial mission included:

- ◆ Assist minority males in two age groups, 9 to 15 and 16 to 23, in becoming self-sufficient and productive members of society.
- ◆ Provide counseling, and individual advocacy and core supportive services.
- ◆ Provide opportunities for minority males to contribute through the provision of job training opportunities, scholarships, employment, counseling, job placements and referrals.
- ◆ Provide an early intervention program for 9 to 15 year old males through the provision and utilization of volunteer mentors.
- ◆ Provide positive experiences and opportunities for minority males to become functional members of society.

In 1996, the Agency received a Smart Start Program grant from the Chatham County Partnership for Children (CCPC) to implement a Surrogate Father's Program. The Surrogate Father's Program wanted to utilize African-American males as role models and mentors to young males. The Agency attempted to recruit male volunteers from various socioeconomic and professional backgrounds in Chatham, Orange, and Durham counties. These volunteers were to serve as surrogate fathers and mentors for young males between the ages of 0-5. The young males had been identified as having special needs due to behavioral, social, learning and mental problems and came from single, female head of households.

## **OVERVIEW (CONTINUED)**

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The project's goals included:

1. Assisting single head of households in their parenting efforts.
2. Reduce the incidences of crime, drugs, alcohol, and abuse in the home and the community through the intervention of positive male role models.
3. Induce education and learning as a tool to a better lifestyle.

The Agency received two contracts under this grant. Under the first contract with CCPC, total payments were not to exceed \$16,662. A subsequent contract amendment increased the contract by \$6,500, bringing the total contract payments to \$23,162. This contract period covered January 1, 1996 through June 30, 1996.

CCPC awarded a second contract, effective July 1, 1996 through June 30, 1997, to the Agency. The amount of the contract was not to exceed \$26,714. Of this amount, the Agency received \$23,165 in payments from CCPC. The second contract was suspended on February 21, 1997. Subsequently, CCPC terminated the contract on March 18, 1997 due to questionable expenditures by the Agency.

### **Liberty Chapel United Church of Christ**

On October 18, 1995, the Liberty Chapel United Church of Christ (Liberty), located in Moncure, North Carolina, contracted with CCPC to receive a Smart Start grant for the development of an educational and child care center. The grant authorized Liberty an amount not to exceed \$6,000 from October 1, 1995 through June 30, 1996. Liberty was authorized to use the funds to explore the feasibility of establishing an educational and child care center in the Moncure Haywood Communities. Liberty proposed to complete a

## OVERVIEW (CONCLUDED)

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child care center feasibility study by December 1995; to develop the center's operations policy and program plan by April 1996; and to employ a center director and complete the enrollment and licensing plan by June 1996. On May 29, 1996, the contract was amended by increasing the amount awarded from \$6,000 to \$38,165. This amendment stipulated that the additional funds would be used in the development of the facility, renovating an existing structure to establish an AA licensed child care facility for a maximum of twenty-nine children. The second amendment extended the termination date of the grant from June 30, 1996 to June 30, 1997. The last amendment, effective May 1, 1997, increased the grant's total allowable amount from \$38,165 to \$48,165.

On May 23, 1996, Liberty contracted with the Child Care Networks, a non-profit organization, to receive a Quality Improvement grant in the amount of \$1,500. This grant, which expired on June 30, 1996, stipulated that the Smart Start funds would be spent on chairs for the center.

On May 29, 1996, Liberty contracted again with the CCPC to receive a Health and Safety Improvement grant in the amount of \$11,965. This grant stipulated that these Smart Start funds would be spent to relocate oil tanks, enclose electrical fixtures, grade and surface the playground, replace the existing fence, and remove old playground equipment. The grant expired on June 30, 1996.

On January 7, 1997, Liberty received a special state appropriation of \$5,000 through the Division of Child Development within the North Carolina Department of Health and Human Services. The funds were designated for salary and capital expenditures.



## INTRODUCTION

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We received allegations through the State Auditor's Hotline concerning the Smart Start expenditures by Save Our Brothers, Inc. (the Agency) and Liberty Chapel United Church of Christ (Liberty). The allegations concerned the possible misuse of Smart Start funds. Both of these organizations received their Smart Start grants from the Chatham County Partnership for Children (CCPC). Also, these two organizations employed the same consultant to assist with their respective projects.

We used the following procedures to conduct our special review of these allegations:

1. Interviews with former consultants and employees of the Agency and Liberty.
2. Interviews with members of the Agency's Board of Directors and Liberty's Board of Directors.
3. Interviews with individuals external to the Agency and Liberty.
4. Examination of contracts between the Agency and CCPC.
5. Examination of contracts awarded to Liberty by CCPC and Child Care Networks.
6. Examination of other records pertaining to the Agency
7. Examination of other records pertaining to Liberty.

This report presents the results of our Special Review conducted pursuant to G.S. §147-64.6(c)(16), rather than as a financial audit. Neither Save Our Brothers, Inc. nor Liberty Chapel United Church of Christ were required to complete a financial audit pertaining to Smart Start funding.

## **FINDINGS AND RECOMMENDATIONS**

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### **1. THE AGENCY DOES NOT APPEAR TO HAVE ACCOMPLISHED ANY CLEAR OBJECTIVES.**

For the period covering January 1, 1996 through June 30, 1996, the Agency received \$23,162 in state funds from Chatham County Partnership for Children (CCPC) for mentoring program expenditures. Later, the Agency received \$23,165 for mentoring program expenditures for the period covering July 1, 1996 through December 31, 1996. During these two periods, the Agency sought to sponsor mentoring programs for male children aged 0 to 4 years. The consultant (and prior board member) told us that 38 children were actively participating in the program at the time of funding. However, the program's Project Director gave us a lower number of 15-16 children actively participating in the program.

In June 1998, CCPC conducted a program review of the Agency. This review revealed that the number of children served and mentors used had been inflated. CCPC found that 34 children had been recruited to participate in the program since its inception. CCPC's site visit also revealed that not all individuals listed as volunteers were mentoring. However, the Agency listed these volunteers as active mentors. According to CCPC's program audit report, the Agency recruited 44 volunteer mentors. Of these 44 volunteers, only 13 (30%) completed the necessary 8 hours of training. Two other volunteers completed four hours of training. Of the 44 recruited volunteers, 15 (34%) had been matched with a child. At the time of CCPC's

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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program audit, only five mentors were actively involved with a child.

According to CCPC's program review, interactions between volunteers and children were limited. We did not see any evidence of significant contributions to the lives of these 0-4 year old children. CCPC's review also revealed very little accomplishments for the 12-month funding period. Additionally, there was no useful follow-up mechanism with the children after age four. The Agency failed to plan and implement a program to continue mentoring children. We found the majority of funds were used to pay for individuals' salaries and fees for services while very little was spent to accomplish the goals of the grant. This amount, \$39,162, represented 85% of the total (\$46,327) grant funds awarded.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **2. THE BOARD'S DECISION TO HIRE A BOARD MEMBER AS A CONSULTANT VIOLATED ITS CONFLICT OF INTEREST POLICY.**

In October 1995, Save Our Brothers, Inc. (Agency) submitted a proposal to the Chatham County Partnership for Children (CCPC) requesting funds for a Surrogate Father's program. This proposal, though signed by the Board President, was assembled and prepared by the founder of the Agency. The organization's founder is the same board member referenced in this finding as the consultant. In a

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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memorandum dated November 29, 1995, the founder of the Agency tendered his resignation from the Board of Directors. He cited the need for his services to start up the Surrogate Father's program. However, the Board agreed to a contractual arrangement with the founder while he was serving as a board member.

According to the minutes of the October 17, 1995 Board of Directors' meeting, the Board agreed that the founder could serve as a consultant if funds were inadequate to hire a full-time or part-time program director.

The Agency's Conflict of Interest Statement reads, "A trustee having a conflict of interest or a conflict of responsibility on any matter involving the corporation and any other business or person shall refrain from voting on such matter. No trustee or officer shall use his or her position as a trustee or officer of the corporation for his or her own direct or indirect financial gain." Thus, we found a conflict of interest.

As stated earlier, the board minutes indicated the consultant was to be hired if funds were inadequate to hire a full-time or part-time program director. In their proposal to CCPC, the Agency requested \$12,048 for salary, wages, and benefits. After approval, the Agency hired another individual as a part-time project director. Since this project director was in place, we question the need for the consultant.

We examined timesheets that the consultant used as supporting documentation for the number of hours worked. These timesheets only indicated days and hours worked.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The timesheets did not indicate what type of work was being performed. We did not find any documentation that justified the hours the former board member indicated he spent working. Also, given the amount of the grant, the limited number of participants in the program, and the administrative activities necessary for a program of this size, we question the need for the former board member to become a paid consultant.

The consultant also served as the liaison to CCPC. During the contract period, CCPC's Executive Director did not know the amount paid to the consultant. However, the Executive Director indicated the amount of time billed and paid to the consultant is more than the time he spent with the CCPC.

For the period covering March 1996 through October 1996, the consultant received \$6,600 from the Agency for his services.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **3. THE AGENCY APPOINTED THE WIFE OF THE PRESIDENT OF THE BOARD OF DIRECTORS TO THE POSITION OF EXECUTIVE DIRECTOR.**

During our review, we discovered that the wife of the President of the Board of Directors held the position of Executive Director. Thus, at the least, an appearance of a conflict of interest existed. When questioned about this, the President stated that the

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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consultant (and former board member) made the decision to hire his wife. He then advised the President to resign. We question the decision to hire the Board President's wife and then advise the Board President to resign.

The consultant told us that he advertised for the position of Executive Director, but received no responses. We were given copies of the employment opportunity notices and letters to advertise the position. However, the notices and letters were dated June 24, 1996, the same date the President held a board meeting to announce his resignation due to his wife taking the position. Additionally, the closing date given on the notice was July 5, 1996, four days **after** the Chairman's wife started the job as Executive Director. The President of the Board resigned on Friday, June 28, 1996; his wife started her position on Monday, July 1, 1996. She started working in the position exactly one week after it was advertised. She received \$9,077 in compensation from state funds for the period July 1996 through January 1997. The Project Director stated that he was unaware of the new Executive Director's position and surprised by the turn of events. We question whether this position was legitimately advertised and whether anyone was given an opportunity to apply. We also question whether the Board had any real authority over the consultant who was obviously running the program.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **4. THE AGENCY PAID A BOARD MEMBER'S WIFE AND SON FOR MISCELLANEOUS SERVICES.**

We found checks totaling \$600 made payable to a board member's wife and son for performing miscellaneous services for Save Our Brothers, Inc. Documentation indicated services included catering an event, cleaning up after the event, typing duties and janitorial services. Again, we refer to the conflict of interest policy that states that an officer cannot benefit either directly or indirectly. We asked the consultant about this situation. He stated that he was only using those with whom he was familiar.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **5. THE AGENCY PAID AN INDIVIDUAL FOR BOOKEEPING SERVICES THAT DID NOT APPEAR TO HAVE BEEN PERFORMED.**

During our investigation, we found payments to an individual for bookkeeping services. However, we did not see any evidence where these services were

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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performed. Given the number of checks written and amount of the grant, we did not see the need for outside bookkeeping services. For the period covering March 1996 through December 1996, this individual received six payments totaling \$1,275.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **6. THE AGENCY OVERSTATED ITS EXPENDITURE FOR COMPUTER EQUIPMENT.**

For the period covering January 1, 1996 through June 30, 1996, the Agency submitted expenditures of \$3,884 for computer equipment on its expenditure reports submitted to CCPC. However, there were no actual expenditures for computer equipment during this time period. During the period July 1, 1996 through December 31, 1996, the Agency reported computer equipment expenditures of \$2,203 in error. Canceled checks during this time period indicated expenditures of \$2,023, not \$2,203. We asked the consultant about the discrepancies in the reports. He stated that the reported amount was incorrect. However, we didn't see any attempt by the Agency to correct the discrepancy.



## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **7. THE AGENCY PAID A BOARD MEMBER FOR CLERICAL SERVICES.**

As stated before, the Agency's Conflict of Interest policy clearly prohibits any member of the Board of Directors from benefiting financially from the Agency. However, in this case as with others, a board member was paid \$300 for performing work for the organization. We asked the consultant about this payment. The consultant told us that this board member, who is his sister, had resigned from the Board prior to performing her services. We were given a copy of the board minutes that contained the information concerning her resignation. The minutes stated that the President of the Board had received a resignation letter from this particular board member. However, we were not given a copy of the resignation letter. The date of the board meeting was June 28, 1996; the date of the check issued to the consultant's sister was May 24, 1996.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **8. THE CONSULTANT RECEIVED \$350 IN LOAN REPAYMENT WITHOUT SUPPORTING DOCUMENTATION.**

We found two checks, totaling \$350, made payable to the consultant (and former board member). The description on the checks stated that they were for loan repayments. However, we did not see any deposits into the bank account of the organization from the consultant's personal funds, nor did we see any receipts for expenditures made by the consultant using his personal funds. The consultant gave us copies of three personal checks that were written to the Project Director, the Executive Director, and the Joint Orange, Chatham, Community Action Agency. He stated that these were Save Our Brothers, Inc.'s expenditures. However, we were unable to verify this claim.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

### **9. THE CONSULTANT SIGNED CHECKS FOR THE BOARD PRESIDENTS.**

We were told by the Project Director that often the consultant and former board member would personally fill out and sign the Agency checks. However, we did not find a check which contained the consultant's signature. We were given copies of memos from the first and second Board President. The memos authorized the consultant to sign their names to documents of the Agency. We asked the consultant

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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about signing the checks for the Board Presidents. He told us that he only signed a few checks for the first President. He told us that because the second President was frequently unavailable, he signed more checks. We question the wisdom of the President's giving this authority to the consultant. In effect, the Board permitted the consultant to sign checks without first gaining approval for expenditures. We did not see any evidence where the Board ever reviewed expenditures made by the organization. Since the consultant was allowed to spend the money in the manner in which he chose, the necessity of a Board was eliminated.

### **RECOMMENDATION**

**We question the entire amount of funding to Save Our Brothers, Inc. based on its limited accomplishments and the other findings in this report.**

#### **10. ANOTHER GRANT RECIPIENT, WITH WHOM THE CONSULTANT PROVIDED CONTRACTUAL SERVICES, HAS NOT OPENED ITS CHILD CARE CENTER FOLLOWING RECEIPT OF \$66,630 IN STATE FUNDS.**

During 1995, the founder and former board member of Save Our Brothers, Inc. was hired by Liberty Chapel United Church of Christ (Liberty) to serve as its Project Director. The Project Director's duties included facilitating the establishment of an educational and child care center and identifying potential funding sources for the center's establishment and support. Initially, the Project Director received \$25 per hour for his services. On February 1, 1996, his hourly fee increased to \$50. The

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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former board member of Save Our Brothers continued to work for Liberty through July 1996, receiving salaries totaling \$8,710.

On October 18, 1995, Liberty received a \$6,000 Planning Grant from the Chatham County Partnership for Children (CCPC). Based on the grant proposal submitted to CCPC, a "thorough feasibility study" was to be conducted on the multi-purpose building owned by Liberty. However, the feasibility report submitted by the Project Director focused mainly on the community and its residents, with little emphasis on the suitability of the building proposed for the child care center. According to CCPC's Executive Director, had she known the majority of funds were to be spent on a study focusing on the Moncure community, she would not have recommended to CCPC's Board that it award the planning grant to Liberty. Although the Project Director submitted the required reports of the grant expenditures to CCPC, CCPC's Executive Director stated she did not realize the focus of the feasibility study until receiving a copy of the Feasibility Study report in September 1996. By that date, CCPC had increased the amount of the grant from \$6,000 to \$38,165, as well as awarding Liberty an \$11,965 Health and Safety Improvement grant.

According to CCPC's Executive Director, she became concerned about the child care center project during the summer of 1996 because she believed the Project Director was not knowledgeable about child care centers. Once Liberty received the Health and Safety Improvement grant, CCPC's Executive Director stated that she became more involved in overseeing the project. According to CCPC's Executive Director,

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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the \$10,000 in state funds awarded by CCPC to Liberty during June 1997 occurred because she was overseeing the project at that time.

Although Liberty received state funds totaling \$66,630 from November 1995 through June 1997, consisting of \$60,130 from CCPC, \$1,500 from Child Care Networks, and a \$5,000 special state appropriation, as of the writing of this report a child care center has not opened.

### **RECOMMENDATION**

**Chatham County Partnership for Children should closely monitor the expenditures of grant funds, ensuring that funds are spent in accordance with the terms of each grant.**

#### **11. LIBERTY ISSUED A \$2,430 CHECK TO PAY SAVE OUR BROTHERS' PAYROLL.**

According to the Contract Administrator with Liberty Chapel United Church of Christ (Liberty), Liberty's Treasurer requested permission from him to write a check as a loan to Save Our Brothers, Inc. (the Agency) to cover the payroll. At the time the check was written, the founder and former board member of the Agency was working as a consultant for both Liberty and the Agency. Liberty's Contract Administrator stated he approved the check, dated June 14, 1996 for \$2,430, after he was informed by the consultant that CCPC had approved the loan. However, according to CCPC's Executive Director, she did not approve the loan nor was she aware of the check at the

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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time it was written. The Agency reimbursed Liberty the \$2,430, which was deposited into Liberty's checking account on July 1, 1996.

### **RECOMMENDATION**

**Again, Chatham County Partnership for Children should closely monitor the expenditures of grant funds.**

## CONCLUSION

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We have questioned the entire amounts of the grants awarded by CCPC to Save Our Brothers, Inc. for the mentoring program and Liberty Chapel United Church of Christ for the day care center. The individuals in charge of these programs were substantially the same. In both instances, it was difficult to identify measurable benefits from any of the grants. In addition, the majority of funds from the grants were paid to the individuals in charge of the programs, or their relatives. Although the payments were labeled for services rendered, the fact remains that \$112,957 in grant funds were expended for a mentoring program and day care center, neither of which is currently operational.

The combination of the lack of benefits coupled with the organizers' financial benefit tends to show, at a minimum, a lack of stewardship of state funds by the organizations in question. The purpose of these grants was to benefit the children, not the organizers.

## ***Statement of Financial Impact***

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The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting these areas where the system of internal controls were either circumvented or should be enhanced, or where, in our judgment, questionable activities or practices occurred.

Since the purposes for which state funding was awarded to Save Our Brothers, Inc. and Liberty Chapel United Church of Christ, were never accomplished, even after all the funds were spent, we question the expenditure of the entire amount of these grants.

1. State funding awarded to Save Our Brothers, Inc.	\$ 46,327
2. State funding awarded to Liberty Chapel United Church of Christ.	<u>66,630</u>
<b>Total Financial Impact</b>	<b><u>\$ 112,957</u></b>





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December 22, 1998

*Response from the Chatham  
County Partnership for Children*

Executive Director  
Genevieve Megginson

The Honorable Ralph Campbell, Jr.  
North Carolina State Auditor  
300 North Salisbury Street  
Raleigh, North Carolina 27603-3217

**RE: Special Review of Save Our Brothers, Inc. and Liberty Chapel  
United Church of Christ**

Board of Directors

Sharon Bynum  
Chair

Nancy Honeywell  
Vice Chair

Maria Lapetina  
Secretary

Bill Warford  
Treasurer

Dear Mr. Campbell:

I am writing on behalf of the Board of Directors of the Chatham County Partnership for Children ("Chatham County Partnership") in response to the report of your special review of the Save Our Brothers, Inc. ("Save Our Brothers") and Liberty Chapel United Church of Christ ("Liberty Chapel") programs which were funded by the Chatham County Partnership.

Board Members

Amy Rabb  
Barbara Burton  
Barbara Garcia  
Rev. Barry Gray  
Charlie Horne  
David Smith  
Denise Pickett  
Faye Hall  
Gary Cox  
Genevieve Parker  
Glennie Beasley  
Geraldine  
DeGraffenreidt  
Jayne Fredrickson  
Jimmy Leach  
Karen Allen  
Katharine Leslie  
Larry Mabe  
Margie Ellison  
Marion Emerson  
Moses Carey  
Regina McAuley  
Robert Hall  
Scott Allen  
Tom Maynard  
Uva Holland  
Uvanka McCrimmon  
Wayne Sherman

First of all, we must take issue with the conclusion that all of the funds allocated to Save Our Brothers and Liberty Chapel were misspent. In fact, the vast majority of those funds were spent in the ways and for the purposes they were intended. Project staff for both programs were paid qualified salaries for real time and tasks performed to the best of their ability. Renovations for the Liberty Chapel child care center were completed by a qualified commercial building contractor to the specifications required. These costs, and other expenditures for normal operating expenses for the two projects, were appropriate and within the stated guidelines for Smart Start.

Even though most of the funds were used for the purposes for which they were allocated, it cannot be denied that neither program is currently providing services. There were financial irregularities and inappropriate conflicts of interest in the administration of the Save Our Brothers program and, to a lesser extent, in the Liberty Chapel program. The Chatham County Partnership acknowledges that it is responsible for failing to recognize and address these improprieties more quickly and more decisively. Both Save Our Brothers and Liberty Chapel had worthy goals that were consistent with the mission of the Chatham County Partnership--mentoring young minority males and providing child care in a community that desperately needed that service. The Chatham Partnership was very early in its organizational development, was anxious to serve the children targeted by these programs and was eager to support community-based initiatives like these. Our intentions and goals, like those of most of the individuals associated with Save Our Brothers and Liberty Chapel, were good. Unfortunately, a few of the persons responsible for administering these programs--particularly one individual who was associated with both programs--failed to live up to their legal and ethical responsibilities. For our association with them, we take responsibility.

Letter to The Honorable Ralph Campbell, Jr.  
December 22, 1998  
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When the Chatham County Partnership learned of the improprieties and irregularities in the administration of the Save Our Brothers program, it did respond swiftly and effectively to stop the loss of funds through that program. The contract with Save Our Brothers was immediately suspended by the Chatham Partnership staff upon completion of the first annual site visit and informal audit of the program. The Board of the Chatham Partnership agreed with the staff's conclusion and formally terminated the contract with Save Our Brothers within a month. The Chatham Partnership has had no further dealings with the organization or the individuals involved.

Perhaps more importantly than our response to those particular circumstances, the Chatham County Partnership learned a great deal from this bad experience about how to keep it from recurring. Our scrutiny of proposals and evaluation of existing programs has improved tremendously. We have reviewed our contracts for clarification of the roles of the Board and staff in suspending and terminating poorly performing programs. We have also instituted and strictly applied a policy of routine on-site monitoring of funded projects and agencies, including review of financial practices and program performance delivery. Consistent with our 1997-99 Smart Start Strategic Plan, we have also applied Performance Based Budgeting principles, which has resulted in the termination of programs that fail to satisfy their performance criteria. As a result of this experience, we are certain that a similar situation will not again develop under our watch. We hope you will agree that these steps are consistent with the conclusions of your report and will make us better stewards of the public funds entrusted to us.

As active, concerned citizens of our community, we are gravely disappointed that weak management and improper actions by just a few individuals have denied the children of our community services they were promised, and denied limited available resources to others who might have used them well. We are outraged by the dishonesty, infidelity and brazenness of individuals who would divert funds intended to nurture children to their own use. Based upon the findings of your report, the Board of the Chatham County Partnership is resolved to immediately take formal action to seek restitution of these funds from the individual who is responsible for their diversion.

Letter to The Honorable Ralph Campbell, Jr.  
December 22, 1998  
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In many ways, this has been a sad, distressing episode for the Chatham County Partnership. We are, however, undaunted in our commitment to the goals and objectives we had hoped to address through Save Our Brothers and Liberty Chapel. We are committed to continue working to secure the health and intellectual development of the children of our county.

Sincerely yours,

*Sharon Bynum*

Sharon Bynum, Chair  
Chatham County Partnership for Children

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In accordance with G.S. §147-64.5 and G.S. §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Mr. Thomas L. Covington	Director, Fiscal Research Division

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### **Other Parties**

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Ms. Genevieve R. Megginson  
Dr. John Holmes, III  
Ms. Margie Ellison

Chairman, North Carolina Partnership for Children  
Executive Director, North Carolina Partnership for Children  
Chairman, Chatham County Partnership for Children  
Executive Director, Chatham County Partnership for Children  
Chairman, Save Our Brothers, Inc.  
President, Smart Start Advisory Board, Liberty Chapel United  
Church of Christ

January 12, 1999

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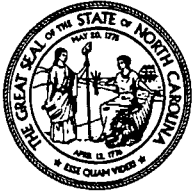
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**PRESS RELEASE**

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For Immediate Release:

January 12, 1999

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**STATE AUDITOR RALPH CAMPBELL RELEASES SPECIAL REVIEW OF  
SMART START EXPENDITURES BY  
SAVE OUR BROTHERS, INC AND  
LIBERTY CHAPEL UNITED CHURCH OF CHRIST**

State Auditor Ralph Campbell today released a Special Review of Save Our Brothers, Inc., and Liberty Chapel United Church of Christ. Save Our Brothers, Inc. (Agency) is a non-profit agency operating in Chatham County. The Agency received two contracts amounting to a total of \$46,327 from the Chatham County Partnership for Children (CCPC) to implement a Surrogate Father's Program. Liberty Chapel United Church of Christ is located in Moncure, North Carolina and received Smart Start grants from the CCPC in the amount of \$61,630 and a direct grant from the N.C. Department of Health and Human Services (HHS) for \$5,000. The Smart Start grants to Liberty were all related to the development of an educational and child care center in the Moncure and Haywood communities. The HHS grant was for salary and capital expenditures associated with the project.

State Auditor Ralph Campbell said, "We received allegations through the State Auditor's Hotline concerning the possible misuse of Smart Start funds by both of these organizations, and we initiated our investigation shortly thereafter.

"Our review of Save Our Brothers, Inc. led us to conclude that all of the funding made to that agency was questionable given their limited accomplishments and the nature and number of findings produced as a result of our investigation. We could not determine that Save Our Brothers, Inc. accomplished any clear objectives with the funds. In addition, there was a clear conflict of interest in the hiring of a board member to do work as a consultant, and at least the appearance of a conflict in the appointment of the spouse of the president of the board of directors as the agency's executive director," continued Auditor Campbell. "The employment of a board member's wife and son for miscellaneous services also violated the agency's written conflict of interest policy.

"Other payments to an individual for undocumented bookkeeping services, to a consultant for loan repayments that also lacked supporting documentation, and to a board member for clerical





services certainly did exhibit 'weak management' as the CCPC's response confirms. But, the most troubling aspect of our findings was the reliance by both Save Our Brothers and the Liberty Chapel United Church of Christ on the consultant who had previously served on the board of Save Our Brothers. Authorizing that individual to sign checks and other documents on behalf of the agency represents both a major breach of internal controls and the abdication of responsible oversight that the board of directors and president are supposed to conduct," declared State Auditor Campbell.

"This very same individual also had a role in the problems we documented with Smart Start expenditures at Liberty Chapel United Church of Christ. He was the project director for the Liberty educational and child care center, and our review questions all of the funds allocated by CCPC to Liberty since the child care center hasn't opened. In addition to this lack of program performance, Liberty also issued a check to Save Our Brothers, Inc. ostensibly to cover payroll expense. This check was issued without appropriate approvals by those in authority at Liberty."

"The response by the chair of the Chatham County Partnership for Children is encouraging in its tone and intent," observed Auditor Campbell. "We hope that this perspective and the closer monitoring of project performance will indeed prevent similar situations from occurring. We also hope that the CCPC will pursue as they suggest restitution of the funds which were inappropriately expended."

Printed copies of the special review including the response by the Chair of the Chatham County Partnership for Children are available by contacting the Office of the State Auditor at the address above or by sending an electronic mail request to **reports@aud.osa.state.nc.us**. A complete copy of the review will be posted on the State Auditor's home page, **<http://www.osa.state.nc.us>**.

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